

Managing disruptions on reporting

Explaining the joint statement of
the SFC and the Exchange on
results announcement during the
coronavirus outbreak



The Hong Kong Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong Limited (Exchange), issued a joint statement¹ in relation to results announcements in light of travel restrictions related to the coronavirus outbreak.

Travel restrictions and other measures imposed by the government due to the recent outbreak of the novel coronavirus may disrupt the reporting or review process of some issuers. Hence, the joint statement was made to provide guidance to listed companies in Hong Kong and auditors in relation to the disclosure of financial information. The Exchange reminded listed issuers to engage with auditors to discuss their audit plans and timetables, and to closely monitor any new developments.

¹ www.sfc.hk/edistributionWeb/gateway/TC/news-and-announcements/news/doc?refNo=20PR11

2 | Managing disruptions on reporting
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EY team summarizes frequent questions about the statement to help listed companies in Hong Kong understand the guidelines and take corresponding actions timely:

1. What should the directors do now?

Directors should discuss audit plans and timetables with auditors promptly. If the board of a listed company believes there is a real possibility that the company will be unable to publish its annual results announcement in accordance with the relevant requirements under the Listing Rules (including reporting deadline, content requirement and/or the requirement to agree on the results announcement with the auditor), it should contact the Exchange as early as possible to discuss the situation and provide necessary information to the Exchange.

2. What information should the company provide to the Exchange?

1. A description of the travel and other restrictions which have affected the company's auditing or reporting process
2. Where available, an account of why these restrictions mean the company is unable to comply with the relevant reporting requirements set out in the Listing Rules
3. The financial information that it is nevertheless still able to report on
4. Explain whether the accuracy, completeness and presentation of the available financial information has been adversely affected and, if so, to what extent

3. The company should be able to release the annual results announcement with the usual/prescribed content on or before the reporting deadline. What should the company do if auditors may not be able to release of the results announcement in time?

The company should contact the Exchange and inform them of the situation as early as possible.

According to the joint statement, the company should go ahead and announce the preliminary results (even if they have not been agreed by the auditors) on or before the deadline. In such a case, the Exchange will normally allow trading in the securities of the issuer to continue.

The company should be reasonably satisfied that the results announcement is accurate and complete in all material respects. The company should issue such results announcement (not yet agreed by the auditors) in accordance with the Main Board Rules 13.49(3) and (4) and include appropriate caution statements. GEM companies that are unable to publish audited financial statements on or before the deadline should follow the Main Board Rules 13.49(3) and (4).

The Main Board Rule 13.49(3) has been in the Listing Rules for a long time and covers situations where a listed issuer is unable to agree on its annual results announcement with its auditors on or before the reporting deadline.

In particular, the Main Board Rule 13.49(3)(i)(c) states that “where possible, those results must have been reviewed by the issuer’s audit committee”. What it means is that once EY auditors have completed the audit, the company will have to issue another results announcement agreed upon by our auditors. Under the Main Board Rule 13.49(3)(ii)(b), “where the financial results for the financial year which have been agreed by the auditors differ materially from the financial results published by the issuer in accordance with rule 13.49(3)(i)(c), full particulars of, and reasons for, the difference must be set out in the preliminary announcement of such agreed results”.

4. What happens in other cases, for example, such that the company cannot comply with the content requirement of the results announcement on or before the reporting deadline, or the company is unable to make the announcement (containing information that the company is reasonably satisfied with) on or before the reporting deadline? Will share trading be suspended?

In such cases, the company should consult with the Exchange as soon as possible on the financial information that it is able to report on. The Exchange, in consultation with the SFC, will assess whether publication of this information will be sufficient to maintain an orderly, informed and fair market so that trading in the securities of the company can continue.

The company should therefore be reasonably satisfied that this information is accurate and complete in all material respects. For example, where there are uncertainties relating to the valuation of assets or liabilities, the company should describe what those uncertainties are and state how they may affect the valuation of such items in order to allow investors to evaluate their significance.

It is the overall objective of the Exchange and the SFC to minimize disruptions to trading while ensuring that the investing public continues to receive sufficient information to make informed investment decisions. In making their assessment, the Exchange and the SFC will consider the views of the company's audit committee on the unaudited financial information available to the issuer.

5. Does the company need to issue a profit warning?

The Securities and Futures Ordinance provides that a listed corporation must, as soon as reasonably practicable after any inside information has come to its knowledge, disclose information as such to the public. If a listed issuer's business operations, reporting controls, systems, processes or procedures are materially disrupted by the coronavirus outbreak and/or the related travel restrictions, the management should assess whether any inside information has arisen and, if so, make a separate announcement (such as a profit warning) as soon as reasonably practicable, independent of any applicable Listing Rule requirement (such as the requirements about results announcements).

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APAC no. 03009809
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